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¶11. (U) We warmly welcome your delegation's May 29-30 visit to Hong Kong. Your meetings with Chief Executive Tsang, the Legislative Council and democratic politicians will help to underscore our message that the United States, particularly the Congress, maintains a key interest in Hong Kong's autonomy and democratic development under the Basic Law and "one country, two systems."

Political Outlook

¶12. (SBU) Under the "one country, two systems" concept enshrined in Hong Kong's Basic Law, the Hong Kong Special Administrative Region (HKSAR) enjoys a high degree of autonomy in all matters except foreign relations and defense.

Since Hong Kong's return to China 12 years ago, the people of Hong Kong have continued to enjoy a broad range of civil and social freedoms, strong legal institutions and rule of law, the free flow of information, and a highly professional civil service. The Basic Law also provides for "gradual and orderly progress" toward election of both the Chief Executive and the entire Legislative Council (LegCo) by universal suffrage. Public opinion polls suggest Hong Kong people (particularly the young) increasingly identify themselves as Chinese citizens and are enthusiastically proud of China's rise, symbolized by its hosting of and performance in the Olympics. Further, the increasing economic and personal linkages between Hong Kong and mainland China mean that Hong Kongers see their future tied to China's success.

¶13. (SBU) Although Hong Kong's "executive-led" system grants the administration far greater powers than the legislature, LegCo has grown in influence as a check on the executive, with even "pro-Beijing" parties more willing to criticize the government and push for changes in policy. Chief Executive (CE) Donald Tsang's Administration has won plaudits for its macro-level handling of the economic crisis and the recent H1N1 outbreak (more below), but has faced contentious debates on social spending and economic stimulus. While the pan-democrats lost three seats in the September 7, 2008, LegCo elections, they retain enough votes to deny the government the necessary two-thirds majority required to change the Basic Law. The government will thus have to accommodate pan-democratic views in order to pass democratic reforms for the 2012 LegCo and Chief Executive elections. Political consultations on these reforms, originally planned for early 2009, are now scheduled to begin by the end of this year.

¶14. (SBU) Hong Kong will once again be the only point on PRC soil in which the anniversary of the June 4 democracy movement is publicly commemorated, with activists planning a march for May 31 and the annual candlelight vigil in Victoria Park June 4. Local observers believe the significance of the

20th anniversary, as well as Hong Kong people's desire to protect "one country, two systems" amid allegations the Mainland is trying to ratchet up control of Hong Kong, will lead to a larger-than-usual turnout. An additional factor will be remarks by CE Tsang at LegCo May 14. Claiming to speak for the Hong Kong people, Tsang said an "objective" assessment of June 4 should be made in light of the subsequent 20 years of China's economic development and social stability. Pan-democratic lawmakers walked out in protest, and Tsang later apologized for claiming to represent the views of the people of Hong Kong on this issue.

Economic Performance

15. (U) The global financial and economic meltdown has hit Hong Kong hard. Hong Kong's benchmark Hang Seng Index fell 48 percent in 2008; while it has recovered some ground in recent weeks, trading volumes are still down by two-thirds. Hong Kong banks' hard-earned experience during the Asian Financial Crisis positioned them well to deal with the immediate impact of the financial crisis in the United States: they were not significantly exposed to exotic financial products and continue to be well capitalized. However, the collapse of U.S. demand for Chinese manufactured goods has significantly affected Hong Kong's trade and logistics industries, and the financial services sector has suffered along with them. Hong Kong's exports and imports are down 20 percent from the same period last year. Official unemployment climbed sharply to 5.2 percent in March, and analysts expect additional layoffs in the finance, trade and

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retail sectors later this year. Hong Kong's economy has been in recession since mid-2008; in the first quarter of 2009, Hong Kong's GDP contracted by 7.8 percent. The Hong Kong government has proposed several new infrastructure projects in an effort to create jobs, has increased fiscal spending, and is likely to announce additional fiscal stimulus later this year, but confidence in Hong Kong's short-term economic prospects remains low.

16. (SBU) In 2007, Hong Kong was the third-largest container port in the world (by volume). Hong Kong and the adjacent PRC port of Shekou (Shenzhen) handled almost the same volume of cargo in 2008 and together account for over 25% of all containers shipped to the United States. The economic crisis, however, has pushed cargo volumes down by over 20 percent in both ports in the first quarter of 2009. Hong Kong air cargo shipments declined 20 percent in the fourth quarter of 2008, compared with the same period in 2007, including a drop of 28 percent in December. Shippers reported improving figures in April, leading some to suggest that the region has hit the bottom and is now rebounding, but trade financiers say the low volumes of trade credit applications point to a deeper fall to come.

Export Controls and Nonproliferation

17. (SBU) Hong Kong is a critical partner for USG counter-proliferation and transportation security programs. With its special status under the "one country, two systems" framework, Hong Kong continues to maintain an effective, autonomous, and transparent export control regime, despite its reversion to China. Our mission remains vigilant in efforts to detect possible compromises in Hong Kong's trade controls. Hong Kong was among the first in Asia to participate in the Container Security Initiative (CSI). On April 30, a successful 18-month Secure Freight Initiative (SFI) pilot between the U.S. Government, the Hong Kong Government and Hong Kong's private sector concluded at the port of Hong Kong. This pilot utilized integrated radiation scanning and imaging systems and provided valuable

operational lessons on the technical, logistical and diplomatic challenges with scanning maritime containers in a high-volume port such as Hong Kong.

¶18. (SBU) Hong Kong is a cooperative partner in preventing the transfer of goods through its ports that could be used by those seeking to develop missile and WMD programs. The Hong Kong Government possesses the necessary laws and powers to prosecute and convict persons engaging in illicit activities involving proliferation or WMD production. Its government is also empowered to legally enforce UN Security Council resolutions, once they have been confirmed by Beijing and written into Hong Kong law.

Pandemic Influenza/H1N1

¶19. (SBU) As a regional business and tourist hub in an area historically hit hard by pandemic disease, Hong Kong has invested heavily in a robust and very capable infectious disease surveillance and treatment capability. Response planning conceived for H5N1 (Avian Influenza), which focused on delaying its spread into the general population for as long as possible, is now employed in Hong Kong's "emergency" response to H1N1. All arriving passengers are subject to passive thermal screening for a raised temperature and fill out additional health and travel questionnaires upon arrival.

As of May 19, four cases of H1N1 have been confirmed in recent arrivals from North America and hundreds of travelers in direct contact with, or proximity to, these passengers have been placed in mandatory seven-day quarantine, among them a number of Americans (8 are currently under quarantine). Given this background and the extraordinary lengths Hong Kong has gone to keep H1N1 from its territory, the local press is highly critical of a perceived lack of U.S. efforts to contain H1N1 and are openly accusing the United States of "callously exporting the disease around the world." Hong Kong's Secretary for Health has publicly and privately called for U.S. exit controls to prevent ill passengers from departing the United States.

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